

VZCZCXRO7436
PP RUEHCHI RUEHDT RUEHFK RUEHHM RUEHKS RUEHNAG RUEHNH RUEHPB
DE RUEHHI #0934/01 2240437
ZNR UUUUU ZZH
P 110437Z AUG 08
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC PRIORITY 8289
INFO RUEHHM/AMCONSUL HO CHI MINH 5002
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 04 HANOI 000934

SENSITIVE
SIPDIS

SINGAPORE FOR TREASURY
TREASURY FOR SCHUN
USTR FOR DBISBEE

E.O. 12958: N/A
TAGS: [OREP](#) [EFIN](#) [EAID](#) [ECPS](#) [ECON](#) [ETRD](#) [VM](#)
SUBJECT: SCENESETTER FOR CODEL SHELBY, AUG. 21 to 24, 2008

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SUMMARY AND INTRODUCTION

11. (SBU) Embassy Hanoi looks forward to welcoming you to Vietnam. Prime Minister Nguyen Tan Dung's June visit to Washington exemplifies a U.S.-Vietnam relationship that continues to broaden and mature, in the process spurring economic, social and technological development that has eased the path for a limited expansion of personal freedom and expression for the people of Vietnam. As such, the United States is viewed by the majority of Vietnamese as a key partner in Vietnam's current and future success. High-level visits like yours create opportunities for us to influence developments and respond to Vietnam's interest in globalization, reform, combating corruption, and enhancing educational opportunities for its people. Your particular interest in banking and financial services coincides with one of the Government of Vietnam's greatest challenges and priorities, as the country's economy is going through a period of adjustment following tremendous growth in 2007.

12. (SBU) Vietnam's economic successes have translated into greater international clout. Vietnam has just stepped down from chairing the U.N. Security Council in July, a major diplomatic achievement for the GVN. While GVN leaders are not fully sure how to handle all the attention, they understand that the United States plays a direct role in creating the conditions for their nation's success. Leaders here are thankful, in particular, for the key technical assistance we've given over the past seven years to help reform the system of economic governance.

13. (SBU) Challenges of course remain. GVN leaders assume the Communist Party's preeminent political role to be the linchpin of stability, and human rights remain a major sticking point in our relationship with the GVN. China remains the GVN's critical strategic preoccupation, but many Vietnamese view improving relations with the United States as a key indicator of the tremendous progress since the dark days of the 1970's and 1980's. For these reasons, Vietnam's leaders are committed to continued progress in bilateral relations and will speak with you optimistically about the future of U.S.-Vietnam ties. End summary.

ECONOMIC SUCCESSES AND CHALLENGES

14. (SBU) After a decade of isolation and failed economic policies, Vietnam is determined to catch up with the Asian tigers. Vietnam's "doi moi" (renovation) program of economic reform, begun in 1986, has set the country on a successful market economy path, with an average growth rate of 7.5 percent over the

past decade. A recent World Bank study described Vietnam's poverty reduction rate as the most significant in such a short period of time of any nation in history. The GVN focuses on exports and foreign direct investment in its drive to achieve middle-income status by 2010. Vietnam is second only to Thailand in rice exports, and second only to Brazil in coffee. Other leading exports include crude oil, apparel, footwear and aquatic products. Vietnam is also "moving up the value chain" by increasing its exports of furniture, machinery, cameras, computers, printers, consumer electronics, and other diverse products. U.S. investors tell us the key challenges they face in Vietnam are underdeveloped infrastructure, a shortage of skilled workers and managers, and the considerable level of state participation in the economy. For its part, the GVN is grappling with issues of corruption, improving the legal environment, and implementing its WTO commitments.

¶5. (U) The United States is currently Vietnam's largest export market and third largest overall trade partner. Total two-way trade in goods with the United States in 2007 was USD 12.53 billion, up 29 percent from 2006. One of the most positive stories from 2007 was the surge in U.S. exports to Vietnam from USD 1.1 billion to USD 1.9 billion, driven by agricultural exports such as cotton (up 92 percent), soybeans (up 1,480 percent), and wheat (up 1,120 percent). U.S. commodities including hardwood, hides and skins, tree nuts, fresh fruit, and poultry and red meats also posted record gains in ¶2007. Driven by the technology industry, the United States is Vietnam's seventh largest investor, with USD 2.6 billion in registered FDI since 1988, and USD 2 billion more in "U.S.-related investment."

¶6. (SBU) While the great majority of experts consider Vietnam's long-term economic prospects to be bright, short-term macroeconomic imbalances are worrying investors. Vietnam's current turmoil is rooted in high inflation (27 percent year-on-year July), the large

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current account deficit, and inefficient allocation of resources, which is particularly obvious in the disproportionate amount of state resources devoted to powerful State Owned Enterprises (SOEs).

BANKING AND FINANCIAL SERVICES

¶7. (U) Part of Vietnam's current macroeconomic difficulties are due to its booming banking sector. Credit growth was over 50 percent in 2007, with some newer joint stock banks growing loans at close to 90 percent. Although the GVN has committed to keeping growth at around 30% for 2008, the State Bank of Vietnam (SBV) is already admitting that credit growth will likely exceed that number. The economic downturn in early 2008 exposed weaknesses in the system, and there are now a number of small banks receiving liquidity support from the SBV. Analysts predict that an increase in non-performing loans at the end of the calendar year may bring about additional instability if local investors lose confidence in the banking system. State domination is a factor here, too, as state-owned commercial banks own 60-70 percent of banking assets.

STOCK MARKET

¶8. (U) It has been a turbulent year for Vietnam's stock market. After topping out over 1200 last year, the market dropped quickly as the SBV struggled to control inflation by reducing liquidity. Earlier this year, the market fell as low as 366 before slowly rebounding as economic indicators improved. With the market now hovering in the mid-400's, investor confidence seems to be improving, but challenges for the State Securities Commission (SSC) remain. Companies are slow to list on the exchange, instead preferring to raise capital in the unregulated gray market, and SSC enforcement capabilities are a work in progress. To its credit, the SSC is aware of these shortcomings and is working to improve its regulatory capacity.

MONEY LAUNDERING AND TERRORISM FINANCE

¶9. (SBU) Vietnam is believed to be a destination country for significant amounts of laundered money, much of it stemming from the narcotics trade in the U.S. and Canada. After years of dragging its feet, the GVN has begun to slowly address the issue. Vietnam recently joined the Asia Pacific Group of the Financial Action Task Force (FATF) and is scheduled for an evaluation this November. Law enforcement cooperation on AML is also gradually improving, with 2007 bringing the first instance of cooperation from the Ministry of Public Security. There is, however, much work left to be done. The GVN's ability to prevent, detect and prosecute money laundering remains weak. The SBV has an AML Information Center charged with collecting and monitoring bank data, but the Center suffers from a lack of resources and political will. Terrorism finance is not considered to be an issue in Vietnam at this time.

HUMANITARIAN, EDUCATIONAL, AND TECHNICAL ASSISTANCE

¶10. (U) U.S. Agency for International Development (USAID) programs provide aid in legal reform, governance, economic growth, HIV/AIDS, environmental protection, and disaster prevention. For FY 2007, U.S. aid from all agencies was about USD 86.6 million, the bulk of which has gone towards providing health-related assistance, notably in the areas of HIV/AIDS and avian influenza. Vietnam is one of fifteen countries receiving assistance from the President's Emergency Plan for AIDS Relief (PEPFAR), through which the United States will provide USD 88 million in FY 2008 to expand integrated HIV/AIDS prevention, care and treatment programs. The U.S. Centers for Disease Control and Prevention (CDC) provides assistance in HIV/AIDS, avian influenza, and emergency outbreak response.

¶11. (U) U.S. assistance in areas other than HIV/AIDS remains very modest in relation to spending in smaller neighboring nations, but increased substantially in FY08 from that low base to more than USD 10 million due to earmarks for governance programming and demining. The Administration's FY09 request roughly equals the total for FY08. To a large degree, the FY08 earmarks reflect the profound impact of several U.S. programs. U.S. programs such as Support for Trade Acceleration (STAR) and the Vietnam Competitiveness Index have helped to reshape trade and economic regulation, with huge positive impact on governance throughout the country. Treasury is also starting to engage on economic issues, with programs in areas such as anti-money

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laundering, taxation, insurance and bond market development. Regarding education, the United States now sponsors well over 200 students for graduate study in the United States through a combination of Fulbright grants and the Vietnam Education Foundation (VEF). In-country, the Fulbright Economics Teaching Program trains mid-level Vietnamese professionals in economics and public policy. Both Embassy Hanoi and ConGen HCMC are actively involved in promoting educational exchanges.

ADOPTION ISSUES

¶12. (SBU) The selling and buying of babies and children for international adoption is a serious issue in Vietnam. Due to pervasive problems with fraud and children being offered for adoption without the consent of their birth parents, we have informed the GVN that we will not renew the current bilateral agreement which expires in September. As of July 1, no new applications for adoptions are being accepted by the GVN. The clear "way forward" for Vietnam is to accede to the Hague Convention on Inter-Country Adoption, which it says it wishes to do, as soon as possible. We are heartened that, after months of denying USG reports of corruption in the system, the Vietnamese police have recently arrested a number of persons for falsifying documents and trafficking in babies. This is a first step and we stand ready to help Vietnam make the systemic reforms it needs to run an international adoptions program which protects the rights of all concerned.

HUMAN RIGHTS CHALLENGES

¶13. (SBU) Serious deficiencies related to human rights in Vietnam include lack of freedom of speech, freedom of assembly and freedom of the press. One of our key objectives is to end the use of catch-all "national security" provisions for the prosecution of peaceful dissent. We continue to call for the release of all prisoners of conscience, but where we see individuals expressing their political opinions, many of our government interlocutors see "lawbreakers" trying to destabilize the regime. The recent arrests and sackings of Vietnamese reporters and editors in the wake of a corruption scandal reveal the on-going battle within the GVN over the role of freedom of the press. The continued existence of groups in the United States that advocate regime change complicates human rights engagement by providing ammunition to hard-liners who want to stoke the fading paranoia that we are indeed still "the enemy." Reassuring the GVN that the USG does not support separatist groups can assist in building a better human rights dialogue based on mutual trust.

¶14. (SBU) Despite these obstacles, real progress has been made. Key Vietnamese leaders are committed to enhancing governance, establishing the rule of law, and combating corruption. Vietnam's leading newspapers are more aggressive in terms of the types of news they publish and their willingness to push back against censors, peaceful protests involving a myriad of issues have been tolerated, and surprising progress on religious freedom has been made. While problems remain, we removed Vietnam from our list of countries of particular concern for religious freedoms in late 2006.

MIA/POW - FULLEST POSSIBLE ACCOUNTING

¶15. (U) Obtaining the fullest possible accounting of American POW/MIAs remains an important goal in the bilateral relationship for the United States. The Joint POW/MIA Accounting Command has operated in Vietnam since 1988. JPAC has accounted for 880 Americans previously listed as MIA; 1766 remain missing throughout Southeast Asia.

WAR LEGACY ISSUES

¶16. (SBU) In your meetings, you may hear references to "consequences of war" or "legacies of war" issues, which include Agent Orange(AO)/Dioxin, unexploded ordnance (UXO), land mines, and Vietnamese MIAs. While debate continues over the human impact of AO, recent studies reveal that dioxin contamination is concentrated in approximately 20 "hotspots," mostly former U.S. bases where AO was stored. Areas subjected to heavy aerial spraying do not currently have soil concentrations considered hazardous. Our engagement on this issue has accomplished much, in both transforming the tone of the dialogue and capacity building. Projects have included work at the Danang airport as well as a USD 3 million

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Congressional appropriation for "dioxin mitigation and health activities," which USAID has begun to implement. The USG is continuing to work together with the GVN, UNDP, Ford Foundation and other NGOs to discuss the next steps in the environmental remediation of three priority hotspots in Danang, Hoa Binh and Phu Cat airfields.

¶17. (SBU) Since 1989, USAID, through support from the Patrick J. Leahy War Victims Fund (LWVF) and other sources, has provided more than USD 43 million to support organizations to develop programs for disabled people. The USG has invested more than USD 37 million in a broad spectrum of programs not only to remove unexploded ordnance and landmines but also to address the effects of UXO on Vietnamese living in affected areas. Today, various NGOs conduct UXO and land mine clearance, risk education, and victim rehabilitation. The USG has also donated equipment to the PAVN to assist in UXO and landmine clearance and return land to productive use. In 2006, the State Department provided USD 3.5 million to support UXO action and demining activities in Vietnam, almost a third of which went

directly to PAVN in the form of donated demining equipment. For FY08, Congress stipulated that approximately USD 2.5 million be spent on demining programs, a substantial increase from the \$800,000 requested by the Administration.

CHINA

¶18. (SBU) While Vietnam's engagement with the United States will continue to broaden, China necessarily constitutes Vietnam's most important strategic preoccupation. This is not to say that Vietnam is "choosing" China over the United States; the situation is much more complex than that. For starters, Vietnam's leadership is sophisticated enough to realize that relations with China and the United States do not represent a zero sum game; it is possible to have good relations with both. While China constitutes a vital and necessary commercial partner and former ally, it is also perceived as a significant and frustrating constraint to Vietnam's freedom of action. Continuing disagreements over territorial issues in the South China Sea threaten to reawaken Vietnam's long-standing animosity for their former colonial master. China also looms large on security issues, as the GVN is understandably cautious with regard to Chinese reactions to increased cooperation with the United States.

WHAT YOU CAN EXPECT

¶19. (SBU) You can expect your interlocutors not only to be articulate and well informed, but also to speak in terms generally supportive of growth in the bilateral relationship. As noted above, lingering suspicions still exist among conservatives about the development of closer ties with the United States. Nonetheless, we fully expect the overall tenor to be one of support and interest at a measured pace that will not upset the GVN's calibrated attempts to maintain balance among its other regional partners. There may be media interest among Vietnamese outlets and you should expect photographers at some GVN meetings.

¶19. (U) Again, we look forward to your visit and stand ready to do everything we can to make your visit to Vietnam as productive as possible.

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